

CHURCH WELLS SPECIAL SERVICE DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2006

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Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

The Honorable Board Members
Church Wells Special Service District
P. O. Box 410065
Big Water, Utah 84741-2065

We have compiled the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Church Wells Special Service District, a component unit of Kane County, as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the Table of Contents, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion, or any other form of assurance, on them.



KIMBALL & ROBERTS, P. C.
Certified Public Accountants

March 21, 2007
Richfield, Utah

BASIC FINANCIAL STATEMENTS

**CHURCH WELLS SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
STATEMENT OF NET ASSETS
PROPRIETARY FUND**

December 31, 2006

	<u>Enterprise Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	8,948
Accounts Receivable	<u>10,616</u>
Total Current Assets	<u>19,564</u>
Long-Term Assets:	
Accounts Receivable	<u>165,490</u>
Capital Assets:	
Land and Easements	13,473
Water Rights	8,000
Buildings and Improvements	36,309
Water System	<u>195,144</u>
Total	<u>252,926</u>
TOTAL ASSETS	<u><u>437,980</u></u>
LIABILITIES	
Liabilities:	
Current Liabilities:	
Current Portion of Long-Term Debt	<u>3,000</u>
Long-Term Liabilities:	
CIB Loan	40,000
Less: Current Portion of Long-Term Debt	<u>(3,000)</u>
Total Long-Term Liabilities	<u>37,000</u>
TOTAL LIABILITIES	<u>40,000</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	212,926
Unrestricted	<u>185,054</u>
TOTAL NET ASSETS	<u>397,980</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>437,980</u></u>

See accompanying notes and accountant's report.

**CHURCH WELLS SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND**

For The Year Ended December 31, 2006

OPERATING REVENUE

Property Tax Revenue	1,998
Water Revenue	18,164
Facility Revenue	33,651
Other Revenue	<u>9,254</u>

TOTAL OPERATING REVENUES 63,067

OPERATING EXPENSES

Operating Expenses:

Depreciation	18,490
Office Expenses	2,261
Repairs and Maintenance	9,291
Public Safety	11,687
Subcontract Fees	10,050
Insurance	2,596
Lab Tests	637
Utilities	7,691
Other	<u>419</u>

TOTAL OPERATING EXPENSES 63,122

NET INCOME (LOSS) FROM OPERATIONS (55)

NONOPERATING REVENUE (EXPENSE)

Interest Income	269
Grant Received	5,398
Interest Expense	(2,333)
Impact Fees	<u>2,000</u>

TOTAL NONOPERATING REVENUE (EXPENSE) 5,334

CHANGES IN NET ASSETS 5,279

TOTAL NET ASSETS - BEGINNING OF YEAR 392,701

TOTAL NET ASSETS - END OF YEAR 397,980

See accompanying notes and accountant's report.

**CHURCH WELLS SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

For The Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received From Property Tax Revenue	1,998
Cash Received From Customers	34,109
Cash Paid To Suppliers	<u>(44,632)</u>

NET CASH USED BY OPERATING ACTIVITIES (8,525)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal Payments on Long-Term Debt	(3,000)
Interest Payments on Long-Term Debt	(2,333)
Impact Fees	2,000
Grant Received	<u>5,398</u>

**NET CASH PROVIDED BY CAPITAL AND RELATED
FINANCING ACTIVITIES** 2,065

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Revenue	<u>269</u>
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NET CASH PROVIDED BY INVESTING ACTIVITIES 269

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (6,191)

BALANCES - BEGINNING OF YEAR 15,139

BALANCES - END OF YEAR 8,948

**RECONCILIATION OF OPERATING LOSS TO NET CASH USES
BY OPERATING ACTIVITIES:**

Operating (Loss)	(55)
Adjustments to Reconcile Net Operating Loss to Net Cash Used By Operating Activities:	
Depreciation	18,490
Decrease (Increase) in Accounts Receivable	<u>(26,960)</u>

NET CASH USED BY OPERATING ACTIVITIES (8,525)

See accompanying notes and accountant's report.

CHURCH WELLS SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Church Wells Special Service District (District) is a component unit of Kane County, Utah. The District was established by resolution of the Board of County Commissioners of Kane County on January 1, 1980, pursuant to the provisions of Chapter 23, of Title 11, Utah Code Annotated, 1953, to provide water and fire protection services. Three or five members of the Board of the District are appointed by the Kane County Commissioners. There are no other agencies or component units that should be associated with these financial statements.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The District's only fund is an enterprise fund.

The District has implemented the Governmental Accounting Standards Board Statement Number 33 and 34 and GASB interpretation 6.

C. Basis of Accounting

Fund financial statements report detailed information about the District. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The only fund of the District is an enterprise fund. The accrual basis of accounting is generally followed as revenues are from services which are susceptible to accrual and expenditures are recorded when the liability is incurred. The District applies all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

D. Assets, Liabilities and Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

CHURCH WELLS SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Any investments will be stated at cost.

Capital Assets:

Capital assets used in the government are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

Buildings and Improvements	35 Years
Equipment	5 - 15 Years
Water System	5 - 35 Years

E. Net Assets

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by other governments, creditors or grantors.

F. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CHURCH WELLS SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 2 - BUDGET PROCESS

Church Wells Special Service District has properly adopted required budgets for 2006. Changes to the adopted budget were properly made by resolution and public hearing of the District. The District follows the budgetary practices and procedures required by State law.

These requirements are summarized as follows:

1. A formal budget is adopted by the District.
2. The budget is a complete financial plan that identifies all estimated revenues and all appropriations for expenditures for the year. The budget must balance - that is estimated revenues and expenditures must equal.
3. On or before November 1, the District Manager prepares a tentative budget and files it with the Board of Trustees.
4. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget.
5. Notice of the scheduled public hearing is published at least ten days prior to the meetings.
6. Public hearing are held on the tentatively adopted budget. Members of the public may comment on the budget and recommend changes to the Board of Trustees.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits:

At year-end, the carrying amount of the Special Service District's deposits was \$5,470. The bank balance was \$7,317. All of the bank balance was covered by federal depository insurance. Utah State statutes do not require deposits to be collateralized, however, financial institutions must be approved by the State Money Management Council.

Cash and investments as of December 31, 2006, consist of the following:

	<u>Fair Value</u>
Demand Deposits	4,750
Cash in Savings	692
Investment - PTIF	<u>3,506</u>
Total Cash and Investments	<u><u>8,948</u></u>

CHURCH WELLS SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Business-Type Activities - Unrestricted	<u>8,948</u>
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The Utah Money Management Act (UMMA) established specific requirements regarding deposits of public funds by public treasurers. UMMA requires that District funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations.

PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits and investments for local government are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

CHURCH WELLS SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk:

Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2006, \$0 of the local government's bank balances of \$7,317 were uninsured and uncollateralized.

Credit Risk:

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended December 31, 2006, the local governments has investments of \$3,506 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investments mainly in the PTIF and by adhering to the Money Management Act. The act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Concentration of Credit Risk:

Concentration of credit risk the risk of loss attributed to the magnitude of a government's investments in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

CHURCH WELLS SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	13,473	-	-	13,473
Water Rights	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>8,000</u>
 Total Capital Assets Not Being Depreciated	 <u>21,473</u>	 <u>-</u>	 <u>-</u>	 <u>21,473</u>
 Capital Assets Being Depreciated:				
Buildings	55,004	-	-	55,004
Water Distribution System	425,260	-	-	425,260
Vehicles and Equipment	<u>3,342</u>	<u>-</u>	<u>-</u>	<u>3,342</u>
 Total Capital Assets Being Depreciated	 <u>483,606</u>	 <u>-</u>	 <u>-</u>	 <u>483,606</u>
 Less Accumulated Depreciation for:				
Buildings	16,571	2,124	-	18,695
Water Distribution System	213,750	16,366	-	230,116
Vehicles and Equipment	<u>3,342</u>	<u>-</u>	<u>-</u>	<u>3,342</u>
 Total Accumulated Depreciation	 <u>233,663</u>	 <u>18,490</u>	 <u>-</u>	 <u>252,153</u>
 Total Capital Assets being Depreciated, Net	 <u>249,943</u>	 <u>(18,490)</u>	 <u>-</u>	 <u>231,453</u>
 Business-Type Activities Capital Assets, Net	 <u>271,416</u>	 <u>(18,490)</u>	 <u>-</u>	 <u>252,926</u>

CHURCH WELLS SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the Special Service District as follows:

Enterprise Fund	<u>18,490</u>
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NOTE 5 - LONG-TERM DEBT

In 1991 the District issued a \$75,000 3.5% interest bearing Water Revenue Bond of 1991 that was also purchased by the State of Utah

The following is a schedule of changes in bonds payable:

	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006
Water Revenue - 1991	<u>43,000</u>	<u>-</u>	<u>3,000</u>	<u>40,000</u>

The following is a schedule of debt service to maturity for the 1991 Water Revenue Bond:

	Principal	Interest	Total
2007	3,000	1,400	4,400
2008	3,000	1,295	4,295
2009	3,000	1,190	4,190
2010	3,000	1,085	4,085
2011	3,000	980	3,980
2012-2016	15,000	3,325	18,325
2017-2021	<u>10,000</u>	<u>770</u>	<u>10,770</u>
Total	<u>40,000</u>	<u>10,045</u>	<u>50,045</u>

NOTE 6 - CONTINGENT LIABILITIES

The District has an obligation under an Agreement in Resolution of Dispute to provide six (6) water connections to serve properties designated by the President of Consumer's Agency, Inc. At the date of signing of the agreement, November 1, 1991, these connections were valued at \$2,500 each.

CHURCH WELLS SPECIAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
Continued

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is insured through the Utah Local Governments Trust. The limits of general liability and property damage are \$2,000,000 combined single limit, with a \$0.00 deductible for each occurrence. The District also is insured for Automobile liability for \$2,000,000 combined single limit with a \$0.00 deductible for each occurrence.

NOTE 8 - IMPACT FEES

In February of 2006, Church Wells Special Service District adopted a water impact fee ordinance to encourage the orderly growth and development of the Town. The impact fees, calculated as an expression of new equivalent residential connection, will be used for any improvements and upgrades to the system that are related to the impact from new water hook-ups.

The impact fees for water are \$500 per connection.

The Special Service District is required to place these impact fees into a separate interest bearing account and may expend these funds only on capital improvements, retiring debt for a system or other expenditures allowed by law. These funds must be expended within six years from receipt or refunded with interest to the payer.

The total impact fees collected through December 31, 2006, were \$2,000.